TESTIMONY OF BARBARA SARD
Director of Housing Policy, Center on Budget and Policy Priorities
House Financial Services Subcommittee on Housing and Community Opportunity
April 10, 2002

I appreciate the invitation to testify today. I am Barbara Sard, director of housing policy for the Center on Budget and Policy Priorities. The Center is a nonprofit policy institute in Washington that specializes both in fiscal policy and in programs and policies affecting low- and moderate-income families. As requested, my testimony today focuses on Thrifty Production Vouchers, a new component of the Section 8 voucher program that would be created by Section 401 of H.R. 3995.

Description of Thrifty Production Vouchers

Thrifty Production Vouchers are a less costly form of project-based voucher that can be used only to enable extremely low-income tenants -- those with incomes below 30 percent of the area median income[1] – to live in newly constructed or substantially rehabilitated housing and pay an affordable rent. Tenant payments for rent and utilities would be limited to 30 percent of income. Extremely low-income households are the group with the most severe housing problems. Over two-thirds of extremely low-income renters without housing assistance pay more than half their income for rent or live in substandard housing.[2]

Without an ongoing subsidy such as Thrifty Production Vouchers, extremely low-income households generally would not be able to pay enough rent to cover a property's operating expenses, even if the property's capital costs were fully subsidized. As a result, extremely low-income households may be unable to live in housing produced by current capital subsidy programs, such as the Low Income Housing Tax Credit and HOME, or if they are accepted as tenants they will pay a disproportionate share of their limited incomes for rent. A recent HUD study found that while nearly half of all HOME-funded

---

[1] Section 401 adds a new paragraph to the voucher statute authorizing Thrifty Production Vouchers. As part of this paragraph, the current definition of "extremely low-income" would be expanded, solely for purposes of the Thrifty Production Voucher program, to include families with incomes that do not exceed 30 percent of the national non-metropolitan median income, if higher than the area median income. (See subparagraph (M)(i).) Thirty percent of the national non-metropolitan median income currently is $11,910 for a family of four. This change would ensure that in every area of the country, a family earning the equivalent of full-time work at the federal minimum wage ($10,300) could be assisted by a Thrifty Production Voucher.

[2] Office of Policy Development and Research, U.S. Department of Housing and Urban Development, *A Report on Worst Case Housing Needs in 1999: New Opportunity Amid Continuing Challenges*, January, 2001.

rental units house extremely low-income households, those households in this category who lack rental assistance paid an average of 69 percent of income for rent. What makes this of particular concern is that nearly half of extremely low-income households residing in HOME-funded units lacked rental assistance.[3]

Thrifty Production Vouchers share many of the key characteristics of the new project-based vouchers enacted in Section 232 of the FY 2001 VA-HUD Appropriations Act. To promote mixed-income housing, their use generally would be limited to 25 percent of the units in a property (with exceptions for single-family properties and properties serving elderly and disabled residents and, in some locations, supportive housing for families and other singles). To ensure freedom of choice and enhance market discipline, tenants would have a "Continued Assistance Option" to move after a year with the next regular "turnover" voucher available from the public housing agency (PHA). To guarantee that housing would remain of decent quality, local housing agencies would be responsible for regular inspections.

What makes a Thrifty Production Voucher different is that the "payment standard" would be the property's operating cost, instead of the housing authority's payment standard based on the Fair Market Rent (FMR) that is used for regular vouchers.[4] If sufficient capital subsidies are available for a portion of the units in a property to be debt-free, operating costs will generally be substantially below the FMR. As a result, a Thrifty Production Voucher would cost at least about one-third less than a regular voucher.[5] A cap would be set on the amount of operating expenses that could be covered, to ensure that these vouchers are less expensive than regular vouchers. Section 401 sets the cap at 75 percent of the PHA's payment standard or of the FMR, whichever is higher, unless the Secretary approves a higher cap because local FMRs are too low to support the reasonable operating cost of rental housing. The gross rent for the unit (rent to the owner plus tenant-paid utilities) could not exceed the "payment standard" based on operating costs (or the cap).[6]

---

[3] Christopher E. Herbert, et al., *Study of the Ongoing Affordability of HOME Program Rents*, June 2001, available on the internet at http://www.huduser.org/publications/affhsg/ongoing.html.

[4] HUD sets Fair Market Rents based on actual rents paid by recent movers for unassisted non-luxury housing. In most areas, FMRs are set at the 40th percentile of the rent distribution. (That is, 60 percent of available units cost more than the FMR.) In 39 metropolitan areas, FMRs are set at the 50th percentile. Generally, owners of unassisted housing set rents at a level necessary to cover debt repayment as well as other operating costs, and charge as much as the market will bear in light of local supply and demand.

[5] With a Thrifty Production Voucher, the maximum subsidy is reduced by one-quarter compared with the FMR. The tenant's payment toward the rent and utility costs, however, remains unchanged. As a result, if a tenant pays 30 percent of income for rent, the subsidy amount is reduced by about one-third. The reduction is greater if the operating costs are below the maximum allowable level.

[6] Similarly, for units subsidized by regular project-based vouchers, the gross rent may not exceed the PHA's payment standard for the unit. This is different from tenant-based vouchers; a family with a tenant-based may select a unit with a rent in excess of the payment standard and pay the additional cost. The reason for the different rule for project-based vouchers is that a family does not have the ability to apply its voucher to a different unit in order to limit its rent payment. Consequently, to limit the amount of the subsidy payment and enable the tenant to pay no more than 30 percent of income, the project-based

Operating expenses would include owner-paid utilities, contributions to reserves, an asset management fee, and a modest cash flow allowance. Expenses for services, such as property management, performed by entities related to the property's owner would have to be reasonable and consistent with prevailing costs in the community. Unusual operating expenses, such as security costs in supportive housing, would be permitted, subject to the cap. The owner sets the property's overall operating budget independently. The PHA would only need to verify that the operating costs claimed for the subsidized units do not exceed other units in the property without project-based subsidies, and that any expenses charged for services performed by a related entity are reasonable in light of similar costs in the community. Unless the supply of rental housing relative to demand is exceedingly tight, owners would be strongly motivated to minimize operating expenses, since they would have to bear at least 75 percent of any unnecessary expenses if only 25 percent of the units are subsidized.

Why Thrifty Production Vouchers Are Cost-Effective

Capping the subsidy paid by a Thrifty Production Voucher at 75 percent of the PHA's payment standard or FMR necessarily means that the maximum per subsidy cost is about one-third less than a regular voucher. If the operating cost is below the cap of 75 percent of the PHA's payment standard or FMR, the savings will be greater than one-third. Contrary to what some may think, it is in areas with particularly high housing costs, and therefore high FMRs, that Thrifty Production Vouchers in combination with sufficient capital funds are likely to work best. These are the areas where new production of rental housing generally is needed the most. What makes housing expensive in these areas is the relatively high cost of acquiring land or existing buildings in such areas, and possibly higher construction costs. If the capital costs of the newly-produced or substantially rehabilitated units set aside for extremely low-income households are fully paid, however, the debt-free operating costs of such units will not be so different from average operating costs. Compared with the high FMRs in such areas, Thrifty Production Vouchers may cost as little as 36 – 60 percent of the cost of regular project-based vouchers in such high-cost areas as the San Francisco, Boston, Denver and Newark metropolitan areas.[7]

---

voucher program does not allow an owner to charge more for rent than the PHA's payment standard for the unit.

[7] These estimates are based on a comparison of the expense level estimated for public housing units in these areas by the Harvard Graduate School of Design (see http://www.gsd.harvard.edu/research/research_centers/phocs/news.html), increased by $200 per unit to account for taxes, utility costs, a replacement reserve, and a cash flow allowance, with 110 percent of the applicable FMR. (This comparison is used because project-based vouchers can pay up to 110 percent of FMR even if this subsidy level exceeds the PHA's payment standard, so long as the amount is reasonable for the particular units. Newly produced housing in a mixed income setting is likely to have lower operating costs than public housing.

HUD consultants have estimated that the average per unit operating cost of properties insured by the Federal Housing Administration in 1998-2000 was $242 per month (in 2000 dollars). Larger units will have somewhat higher operating costs, but newly produced units and units in partially assisted developments will tend to have lower operating costs. These estimates of operating costs do not include taxes, utility costs, a reserve for repairs, or a cash flow allowance. Even if these additional expenses (plus inflation to 2002) were to increase the average operating cost by $200, however, this average would still be substantially less than 75 percent of the national average FY 2002 FMR for a 2-bedroom unit, which is $522.

For example, if the housing authority's payment standard, set at 100 percent of the FMR, is $700 monthly and the tenant's share of the rent and utilities is $200, a regular voucher costs $500, and a regular project-based voucher may cost up to $570. (The payment standard for a project-based voucher may be set above the PHA's payment standard, up to 110 percent of FMR, if that rent level is reasonable for the particular unit.) If the operating cost for the same property plus tenant-paid utilities were the maximum allowable, or $525 (75 percent of the FMR of $700), then a Thrifty Production Voucher would cost $325 (operating cost of $525 minus the tenant's payment of $200). This is 35 percent less than a voucher and 43 percent less than a regular project-based voucher. If the operating cost is below the maximum, the savings will be greater.

Section 401 would enable Congress to appropriate funding specifically for Thrifty Production Vouchers. In addition, it would allow PHAs to convert a portion of their current tenant-based vouchers to Thrifty Production Vouchers. PHAs making this choice could increase the total number of families served and the number receiving project-based assistance, without increasing costs or reducing the number of families receiving tenant-based vouchers. For example, a PHA that administers 1,000 vouchers is permitted to project-base up to 200 of these vouchers. (Section 8(o)(13(B) of the U.S. Housing Act, 42 U.S.C. § 1437f(o)(13)(B) limits to 20 percent the amount of a PHA's voucher funding that may be attached to particular structures.) For the equivalent cost of 200 regular project-based vouchers, a PHA could serve about 266 households using Thrifty Production Vouchers (or more, if the payment standard is below the 75 percent cap due to lower operating costs). The number of families receiving tenant-based vouchers would be unchanged. (There would be a small increase in administrative fees, as PHA fees in the voucher program are based on the number of units under lease.)

A question has been raised about whether legislation is necessary for PHAs to administer existing vouchers in the manner required by the Thrifty Production Voucher proposal. It may be possible for PHAs to impose a below-market ceiling on the amount a voucher would pay for a unit that has lower costs due to the absence of debt service as a result of a capital subsidy. But PHAs could not take advantage of the lower costs of Thrifty Production Vouchers to increase the number of families served without the alteration in the formula for renewing Section 8 voucher contracts contained in Section 401.

Some have questioned how tenants in units subsidized with Thrifty Production Vouchers could make use of the option to move with a turnover voucher without increasing the PHA's costs and hurting other families. There is no net financial effect when a family in a TPV unit shifts to a regular voucher. The PHA does not come up with new funding when a family wants to move; it merely allocates the next available voucher to the moving family. To fill the vacant TPV-subsidized unit, it selects a new family from its waiting list. (Or, if the PHA has permitted the owner to maintain a development-specific waiting list, the owner selects a new family off its list.) It is as if the PHA's total voucher funding from HUD is divided in two parts: one part provides "full-price" subsidies to families with regular tenant-based or project-based vouchers (or homeownership vouchers); the other part provides reduced subsidies through Thrifty Production Vouchers. If a TPV-assisted family switches to a regular voucher, it switches funding streams. At the same time, another family moves into the unit subsidized through the Thrifty Production Voucher funding stream. The amount of funds in each "stream" remains essentially unchanged. As a result, families can continue to be assured the right to move when they need to, without increasing total voucher costs.

What is the incentive for housing providers to accept Thrifty Production Vouchers?

Housing providers may want to accept Thrifty Production Vouchers for a number of reasons, depending on the requirements of the capital funding they are seeking, their mission, and the competitive criteria used by local and state agencies that distribute capital funds. In addition, the Thrifty Production Voucher model differs from regular tenant-based and project-based vouchers in some important ways that may be more attractive to some housing providers.

If a recipient of housing production funds is required to use some or all of the funds to house extremely low-income families, the developer will be better able to meet this obligation without undue financial risk if the requirement is accompanied by additional funding. No federal capital subsidies currently require targeting extremely low-income families (except public housing, which has a separate operating subsidy). Such a requirement would, however, be created by the new Production and Preservation component of the HOME program that would be established by Section 101 of H.R. 3995. This proposal would require that half of the new funds appropriated through this program component be used for units occupied by extremely low-income families. If a family or unit does not have a rental subsidy, the rent for a Production and Preservation-funded unit could not exceed 40 percent of a family's gross monthly income. (It is not clear if this cap includes the family's payments for utilities.) While this provision is an important effort to ensure that these units are somewhat affordable, 40 percent of the *gross* income of an extremely low-income household is very unlikely to be sufficient to cover an owner's costs. (Nonetheless, it would be more than a third higher than the payments for rent and utilities that a household with a Thrifty Production Voucher would be required to make based on 30 percent of *adjusted* income.) For example, a single elderly or disabled individual receiving SSI benefits would be required to pay, on average, about $200 per month, which is well below average operating and utility costs. With a Thrifty Production Voucher, the provider would be assured of rent payments sufficient to meet the unit's operating costs (assuming these costs do not exceed the cap), and the tenant could better afford other necessities due to paying only 30 percent of adjusted income for rent and utilities.

Some housing providers will want to serve extremely low-income families even if they are not required to do so by restrictions imposed on capital funds. It may further a provider's mission to serve families and individuals with the most severe housing needs, who generally are extremely low-income. Alternatively, it may be advantageous to a developer to commit a portion of units to extremely low-income households in order to score better in a competition for Low Income Housing Tax Credits or other funds. Unless the housing provider is able to obtain a commitment of vouchers or equivalent rental assistance funds, however, it is difficult financially to serve extremely low-income households at a rent they can afford. Just to cover operating costs and utilities, even without debt service, without paying more than 30 percent of income is likely to require an income of about $18,000 per year.[8] Except in the highest income areas of the country and for households at or near the 30 percent of area median income level, extremely low-income households do not have this much income. As a result, to avoid a net loss on units rented to extremely low-income families, a housing provider must charge higher rents to other tenants or require the families to pay more for rent than they can afford while meeting other basic needs.

The Thrifty Production Voucher program has a number of advantages for housing developers compared with other methods of paying operating subsidies. In earlier federal programs, operating subsidies either were distributed on the basis of a formula that did not consider actual costs, or a federal agency had the final say on setting the operating budget. With a Thrifty Production Voucher, the owner's actual operating costs should be covered (if reasonable). The owner's relative freedom to continue to set the operating budget for the property over time should enable owners to make a long-term commitment to participate in the Thrifty Production Voucher program. Owners would not have to worry that another entity would arbitrarily set the operating budget at an unworkably low level that would not allow for necessary maintenance or unpredictable variations in costs. (The proposed definition of "operating expenses" builds in flexibility to meet sudden changes in costs through a cash flow allowance.) Furthermore, Section 401 requires PHAs to increase on an annual basis the allowable rent that owners may charge if operating costs increase. (Such annual increases would be subject to the cap of 75 percent of the PHA's payment standard or the FMR, whichever is higher. HUD adjusts FMRs annually.)[9]

[8] This calculation is based on the average per-unit operating cost of $242 for FHA-insured multifamily housing discussed above, plus $200.

[9] Some housing groups have expressed concern that Section 401 does not give owners sufficient assurance that a rent adjustment will be made when needed. Suggested amendment # 4 in Appendix A may address this concern.

The Thrifty Production Voucher proposal would give owners the security of receiving a subsidy over the term of a long-term contract. The initial contract term may be up to 15 years, and extensions are permitted. This is five years more than is permitted with a regular project-based voucher contract. In contrast, if an owner rents to a family with a tenant-based voucher and the family decides to move, the owner has no guarantee of continuing subsidy. Under the Thrifty Production Voucher proposal, an owner would have such a guarantee. Indeed, another potentially attractive feature of the Thrifty Production Voucher to owners is the potential to receive vacancy payments from the PHA for up to 60 days, as in the regular project-based program. In contrast, an owner depending on filling extremely low-income units by advertising to families with tenant-based vouchers would not be able to receive any subsidy while a unit is vacant. In addition, Section 401 creates new flexibility for owners to maintain their own waiting lists for units subsidized with Thrifty Production Vouchers, which may make it easier for owners to fill units quickly.

Unlike the current project-based voucher program, the Thrifty Production Voucher program is designed to make it easier for housing developers to combine capital subsidies with a commitment of rental assistance. To accomplish this goal, the Thrifty Production Voucher proposal uses a different formula to distribute vouchers earmarked for use under this program than for regular vouchers, and establishes additional qualifications for PHAs to be eligible to receive new allocations of Thrifty Production Vouchers. To allocate new funding for Thrifty Production Vouchers, HUD would divide the total number of vouchers appropriated for this purpose among states, cities and urban counties based on the ratio now used to allocate HOME block grant funds. (Issues concerning the distribution formula are discussed at the end of this testimony.)

Funds reserved for use as Thrifty Production Vouchers would still have to be awarded, however, to public housing agencies that currently administer Section 8 voucher programs. PHAs could apply to HUD for some or all of the new vouchers allocated to an area they serve. If a PHA does not also administer capital subsidies such as HOME, Low Income Housing Tax Credits, or state or local housing production funds, it would be required to demonstrate to HUD that it has a working partnership with an agency that distributes capital subsidies in the same area. This partnership is required in order to allow housing developers to make a single application for capital subsidies and rental assistance.

Despite these advantages, some housing providers may prefer to use regular project-based vouchers because of their higher subsidy level. If a housing agency has not reached the ceiling on its authority to project-base voucher assistance and has regular vouchers available to commit to a project, it could meet this demand. Thrifty Production Vouchers, however, provide an additional tool that also can be used to expand the number of families assisted. Congress may wish to combine new funding for housing production with new allocations of Thrifty Production Vouchers due to their lower cost, using an allocation formula that parallels HOME program funding and a distribution mechanism that is coordinated with the award of capital subsidies.

Removal of Fair Market Rent as Ceiling on HOME Rents

It is important to note that another provision of H.R. 3995 may undermine the incentive for housing providers to accept regular tenant-based or project-based vouchers or Thrifty Production Vouchers. Section 102(c) of the bill would remove the Fair Market Rent as a ceiling on rents for HOME-funded units. Indeed, as drafted, this provision would appear to prohibit an owner from setting rents below the new cap of 30 percent of the income of a household at 65 percent of area median income. If this change is enacted, rents on HOME units in most areas of the country, metropolitan as well as rural, could be increased above the level covered by regular vouchers. Families with tenant-based vouchers may not be able to access these units if their share of the rent would then exceed 40 percent of income. If, as a result of this change, HOME rents exceed 110 percent of FMR, as would frequently be the case, owners also may no longer be willing to accept the lower rent that project-based vouchers could pay.

How can local government and a public housing agency ensure that new unit production can occur?

A local government that receives HOME funding (or another federal, state or local capital subsidy), will be able to partner with a PHA to distribute the capital subsidies and Thrifty Production Vouchers in a unified process. This streamlined funding process should speed up development and make it more likely that developers will agree to serve extremely low-income families. By establishing requirements or preferences in the competition for capital funds for developers' proposals that commit to set aside units for extremely low-income families, a local (or state) government agency would also enhance the likelihood of capital subsidies serving families with the greatest housing need. It is important to remember, however, that the Thrifty Production Voucher cannot support debt service on assisted units. This means that a full capital subsidy from one or more sources will be needed for the portion of a property that is expected to house extremely low-income families. Local governments also may need to review zoning and other regulatory barriers that inhibit the production of affordable rental housing.

Are Thrifty Production Vouchers needed in localities where there already exists an abundant but unaffordable housing stock?

If the available units are of decent quality, then new production tools are not needed. Regular tenant-based vouchers are perfectly suited to remedy problems of housing affordability. (This is a major reason why *only a portion* of incremental voucher funding should be set aside for use under the Thrifty Production Voucher program.) Of course, owners must be willing to accept the vouchers, and local agencies may need to do a better job of recruiting landlords to join the voucher program and of making families aware of existing housing opportunities. (The flexibility afforded to housing agencies by Section 403 of the H.R. 3995 to convert unused voucher funds to provide housing counseling assistance, rental security deposits, or other activities to assist families with vouchers to obtain suitable housing could help PHAs overcome these barriers to voucher use.) On the other hand, if units are vacant but in need of substantial rehabilitation, the cost of rehabilitation may increase the rents beyond the reach of extremely low-income families. Thrifty Production Vouchers may be a useful tool to guarantee that a share of newly-rehabilitated units continue to serve extremely low-income families.

Other areas of potential concern and improvement in the Thrifty Production Voucher proposal

This section of my testimony addresses four issues: the role of PHAs in determining operating costs, location of units that house families with children, the workability of Thrifty Production Vouchers in areas with low FMRs, and the distribution of new funding earmarked for use under the Thrifty Production Voucher program.

Concerns have been raised about the willingness and ability of PHAs under the proposed Thrifty Production Voucher program to ensure that owners do not inflate operating costs to obtain a higher subsidy. The cap on the voucher subsidy (and gross rents) of 75 percent of the PHA's payment standard or the FMR, whichever is higher, provides some financial security to the federal government. But some of the cost-saving potential of the Thrifty Production Voucher model will not be realized unless housing providers are held to their real operating costs. The statutory language gives PHAs the power they should need to require owners to demonstrate actual and reasonable operating costs. (See page 69: 22-25 and page 70:1-11.) The work burden per unit should not be greater than the verification of rent reasonableness that PHAs perform in the regular voucher program. The primary question a PHA must determine is whether the operating costs claimed for the subsidized units exceed the per unit share of the development's actual operating costs (minus debt service). PHAs that also administer capital subsidies should have staff with the necessary expertise to review operating budgets. For others, HUD could require that PHAs demonstrate that their partner agencies that distribute capital subsidies will assist them to do this new task effectively.[11]

[11] When most or all of the units in a project are subsidized, market discipline cannot be relied on to hold down operating costs, and the task of verifying "real" operating costs will be more difficult. As drafted, section 401 responds to this potential problem by delegating to the Secretary the duty to develop a formula to determine the rent for such projects. (See page 71:3-8.) It is not clear whether it is feasible for the

A second area of potential concern is the location of projects with Thrifty Production Voucher assistance, particularly projects that house families with children. Under Section 401, PHAs would have more flexibility to approve the project-basing of Thrifty Production Vouchers in relatively poor neighborhoods than has been the case under HUD's implementation of the current project-based voucher program. Section 401 permits the use of Thrifty Production Voucher assistance for the additional purposes of revitalizing a low-income community or to prevent displacement of extremely low-income families. In contrast, to date HUD has largely restricted project-based vouchers to areas that are less than 20 percent poor.[12] To balance this greater flexibility, Section 401 prohibits projects that house families with children and are located in relatively poor neighborhoods from having more than a quarter of the units subsidized with Thrifty Production Vouchers. (Projects housing families with children would still be permitted to have all the units receive Thrifty Production Voucher assistance if families receive supportive services and the project is located outside of a poor neighborhood. In contrast, the current project-based voucher program allows an exception to the 25 percent limitation on project-based assistance if families receive supportive services, regardless of the location of the project.) Section 401 should be clarified to ensure that this restriction, which is designed to promote the deconcentration of poverty and expand economic opportunity, cannot be circumvented by using Thrifty Production Vouchers in combination with other project-based rental assistance.[13]

There are two important components of Section 401 that need further analysis. The first concerns whether a different rent cap should apply to areas with relatively low FMRs that nonetheless need additional capital funding. Most likely, these are rural areas that may have vacant units that are in such poor condition that substantial rehabilitation is needed. Distributors of HOME funds in Vermont and New Hampshire have compared the rent cap under Section 401 to available data on operating costs. They found that outside of the higher FMR areas (Burlington and Southern New Hampshire), the reduced subsidy available under a Thrifty Production Voucher would not be sufficient. Section 401 currently grants general waiver authority to the Secretary "if the permitted maximum rent could not otherwise support the reasonable operating cost of rental housing." (Pages 70:24 – 71:2.) Rather than rely on individual waivers, it would probably be preferable either to establish a higher limit in the statute for low FMR areas with certain objective indicators of need for housing production funds or to require the Secretary to develop

---

Secretary to develop such a formula. One possibility would be to dispense with the requirement that the Secretary develop a formula and entrust PHAs with the responsibility of verifying reasonable operating costs for these units as well. PHAs that did not want to undertake this task, which could be more labor-intensive than for projects in which no more than a quarter of the units have project-based subsidies, could refuse to approve projects with a higher proportion of subsidies. Alternatively, PHAs could be given the option of verifying operating costs or of simply applying the subsidy cap as the gross rent.

[12] This policy may change when HUD publishes rules to implement the project-based voucher program. Neither proposed nor final regulations have been issued.

[13] See suggested amendment 3 in Appendix A.

such an alternative cap. Another possibility would be to permit the use of 75 percent of the average state FMR as the cap in low FMR areas.

The second area that could benefit from further analysis is the distribution formula to be used if Congress were to allocate some incremental funding specifically for Thrifty Production Vouchers. As written, allocations would follow the HOME formula. This means that 40 percent of earmarked new vouchers would be allocated to states, based on their relative share of "need" under the indicia used for the HOME program, and 60 percent would be divided among the cities, urban counties and consortia of governments that are large enough to qualify for an individual HOME allocation. PHAs that administer a Section 8 voucher program could apply to administer all or a portion of the Thrifty Production Vouchers allocated to an area they serve.

There are three problems with use of this formula. First, it is unlikely that there would be sufficient new vouchers funded to allocate a reasonable number of Thrifty Production Vouchers to each participating jurisdiction. Even if there were sufficient funds, there would probably be only one possible administrator of the vouchers in most areas as only a single PHA usually serves a city or county, and that agency may not meet the qualifications in the statute or others that HUD would reasonably establish. Second, following the current HOME allocation formula may inhibit the development of new housing where it is most needed: in suburban areas with the greatest job growth. Third, there are currently a number of proposals for new housing production programs before Congress. If any of these is enacted, it may have a different formula, and it may then make sense to track that program's allocation formula. In the absence of a new production program with a different formula, a better allocation method for Thrifty Production Vouchers should be developed. An allocation system that is based on the HOME formula, but divides new funding only into the shares allocable to the 50 states, may be preferable. PHAs within each state that qualify to administer Thrifty Production Vouchers could then compete for a portion of the incremental funds allocated as the state's share of the Thrifty Production Voucher appropriation, similar to the competition currently used for "fair share" vouchers.[14]

Thank you very much for the opportunity to testify on the Thrifty Production Voucher section of H.R. 3995. A list of proposed modifications to Section 401 is attached as Appendix A.

[14] See suggested amendment 8 in Appendix A.

Appendix A – Suggested Modifications to Section 401

1. Page 65, line 20: The new paragraph adding the Thrifty Production Voucher component to the voucher statute should be paragraph (20).

2. On page 67, lines 21-25: To ensure that the power of the Secretary or a court to determine whether an agency actually has complied with the Secretary's regulations in determining that a site location meet applicable civil rights and fair housing requirements would not be unduly restricted, delete the clause beginning with "the" on lines 21 – 25, and in its place insert: "no additional determination by the Secretary shall be required in order for a public housing agency to attach assistance to such units under this subparagraph."

3. Page 68, line 9, to ensure that no more than 25 percent of the units that serve families with children in a poor neighborhood may receive any type of project-based assistance, after the word "paragraph" insert the phrase "or paragraph (13)".

4. Page 69, line 12: To allow an owner whose operating costs as defined in the statute, including the 15 percent cash flow allowance, exceed 75 percent of the payment standard or FMR, to agree voluntarily to accept the maximum rent allowed, insert at the end: "If the gross rent would exceed the limitations in subparagraph (iv), an owner may accept a lesser gross rent."

5. Page 70:12-16: Revise subparagraph (H)(iii) to read: "A public housing agency shall on request [of an owner] adjust the rent annually based on updated unit operating costs and any revision in the applicable Fair Market Rent or payment standard."

6. Page 76, line 16: To make it clear that if a PHA has received new voucher assistance designated for use under the Thrifty Production Voucher program, no adjustment would be required to renew these funds, insert at the end of subparagraph (K) the following sentence: "This subparagraph shall not apply to incremental assistance initially issued under this paragraph."

7. Page 76, line 17, after subparagraph (K) concerning renewal funding, insert the following new provision should be added so that PHAs using the flexibility afforded by Thrifty Production Vouchers do not run up against the 20 percent limitation on project-based assistance: "The additional units assisted as a result of the reduced payments permitted under this paragraph shall not be considered in determining an agency's compliance with the percentage limitation in paragraph (13)(B) of this subsection." This addition is consistent with the provision in Section 401 that allows Section 8 administrators that already project-base 20 percent of their existing voucher portfolios to exceed the cap if they receive new vouchers earmarked for use as Thrifty Production Voucher assistance.

8. Page 76, line 20: To revise the allocation formula for new vouchers earmarked for use under the Thrifty Production Voucher program, strike subparagraph (L)(i) and substitute: "ALLOCATION OF INCREMENTAL ASSISTANCE FOR USE UNDER THIS PARAGRAPH-- After reserving appropriate amounts for insular areas, incremental assistance appropriated for use under this paragraph shall be allocated to each state in accordance with the formula established by the Secretary under section 217(b) of the Cranston-Gonzalez National Affordable Housing Act, reflecting the total need of each eligible consortia and unit of government in the state. The Secretary shall reserve and obligate such assistance to qualified public housing agencies within the state pursuant to a competition conducted pursuant to specific criteria for the selection of recipients of assistance contained in a notice published in the Federal Register. Section 213(d)(1)(D) of the Housing and Community Development Act of 1974 shall apply to the allocation of incremental assistance under this subparagraph."